

BILL # HB 2417

SPONSOR: Clark

PREPARED BY: Hans Olofsson

TITLE: property valuation; telecommunications companies

STATUS: As Amended By House WM

FISCAL ANALYSIS

Description

The bill, as amended by the House Ways and Means Committee, requires the Department of Revenue (DOR) to determine the percentage of obsolescence for all telecommunications service providers either by formula or under a valuation method for personal property known as replacement cost new less depreciation (RCNLD). The term “replacement cost new” refers to a calculation based on the acquisition cost of personal property. The taxpayer is allowed to elect either of the two methods of obsolescence. The bill would become effective in tax year 2009.

Estimated Impact

Based on estimates provided by DOR, the bill, as amended, could have a General Fund cost of \$11.5 million beginning in FY 2010. The bill will reduce statewide net assessed valuation (NAV), which will increase the state’s K-12 education formula cost. The bill will result in a reduction in statewide net assessed valuation (NAV), which will increase the state’s K-12 education formula cost. However, the fiscal impact resulting from the NAV loss could be offset by reducing the cost of automatic school tax rate reductions under the state’s truth-in-taxation (TNT) provisions. The net General Fund cost if the TNT savings are incorporated would be an estimated \$1.6 million beginning in FY 2010.

Under the original version of the bill, the obsolescence provision would apply only to the state’s incumbent local exchange carrier as determined by the formula. (Obsolescence based on the alternative RCNLD method would not be available.) The General Fund cost under the original version of HB 2417 is estimated to be \$8.6 million without TNT and \$1.2 million with TNT.

The House Ways and Means Committee amendment, which expands the application of the obsolescence provision to include other providers of telecommunications service, is estimated to add \$2.9 million to the FY 2010 General Fund cost without TNT and \$0.4 million with TNT.

Analysis

Compared to current law, DOR estimates that HB 2417 will reduce the full cash value (FCV) of telecommunications property by about \$(1.6) billion beginning in tax year 2009. Of the total FCV loss, \$(1.2) billion is for property owned by the state’s incumbent local exchange carrier and the remaining \$(0.4) billion is for property owned by other telecommunications companies. Since such property will be assessed at 22% of full cash value in tax year 2009, the total NAV reduction would be \$(352) million.

Under the Basic State Aid formula, the state pays for the cost of K-12 education not generated through local property taxes. The state also pays a percentage (39% in FY 2010) of residential school property taxes through the Department of Education’s Homeowner’s Rebate program. By reducing NAV by \$(352) million in tax year 2009, the bill will result in a direct increase of the state share of K-12 funding by \$11.5 million in FY 2010. This estimate includes the net impact on both Basic State Aid and the Homeowner’s Rebate.

The NAV reduction under HB 2417 will also generate savings in the cost of the state’s Truth in Taxation (TNT) program. TNT reduces the qualifying tax rate (QTR) to offset growth in existing property values. This reduction occurs automatically unless the Legislature decides to forego the TNT adjustment. For FY 2010, the school tax rate is expected to be reduced by

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13.9¢ under existing statutes. However, the lower NAV under HB 2417 would result in the tax rate reduction being 1.4¢ less than under current law or 12.5¢, which constitutes a TNT saving of \$(9.9) million.

As noted above, the fiscal impact of this bill depends on whether the TNT impact is included or not. In the absence of a TNT adjustment, it is estimated that the cost to the General Fund, beginning in FY 2010, will be about \$11.5 million. However, if the QTR is adjusted to account for TNT, the bill's General Fund cost would be limited to \$1.6 million.

Local Government Impact

This bill would shift the tax burden to property owners not affected by this legislation and/or result in property tax losses for local governments.

3/3/08